

**WRITTEN STATEMENT OF
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DEVELOPMENT**



**BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERALISM AND THE CENSUS
MARCH 1, 2005**

Mr. Chairman and Members of the Committee:

I am Roy A. Bernardi, Deputy Secretary of the Department of Housing and Urban Development (HUD), and on behalf of Secretary Alphonso Jackson, I wish to thank you for the opportunity to appear today, as the Committee begins its deliberations on the Strengthening America's Communities (SAC) Initiative advanced as part of the Administration's FY 2006 budget.

The goal of the Initiative is to consolidate a collection of 18 community and economic development programs spread across five federal departments into a single, more effective program. The new program will be more flexible and it will be easier for communities to access than the current set of overlapping and, at times, duplicative programs. It will be administered by the Department of Commerce, which has considerable experience and a central mission in this area, and it will build on the experience of HUD and the other departments with related programs. The Committee, in requesting HUD's testimony at this hearing, has asked that I focus on providing an overview of how the Community Development Block Grant (CDBG) and related programs are currently administered. I will focus most of my testimony on the CDBG program. The Administration's proposal builds on the CDBG program in ways that are fundamental and important.

Historical context

The CDBG program is the Federal government's largest single grant program to assist local governments in undertaking a wide range of community development activities targeted to improving the lives of low- and moderate-income persons across America. It is one of 17 grant programs in the consolidation, and it accounts for about one quarter of the funding of the 35 community and economic development programs that were considered by the Administration's review. In the course of its thirty-year history, CDBG has provided a ready source of funding for housing rehabilitation programs, public services, public facilities and infrastructure, and economic development activities benefiting millions of Americans. We have analyzed this experience and see a way to improve the effectiveness of the federal government's efforts while retaining CDBG's strengths.

The CDBG program was enacted as part of the Housing and Community Development Act of 1974 (HCD Act) and was notable for the fact that it consolidated ten categorical urban development grant programs and replaced them "with a single, more comprehensive, flexible and soundly financed" program as stated in the Senate committee report accompanying the original legislation. Since that time the federal government's programs for community development have again become somewhat fragmented and in need of consolidation.

CDBG established a formula-driven program for larger cities and urban counties that were designated as “entitlement communities” under the CDBG program. In 1975, the CDBG program’s first year of operation, there were a total of 594 entitlement grantees. For FY 2005, the CDBG program has a total of 1,168 city, state and other governmental grantees.

The number of communities qualifying for CDBG entitlement status has grown 87 percent over three decades due to demographic changes, with significant increases experienced in those years (1982, 1993, and 2004) when updated decennial census data became available. One reason for reform is to better target limited federal resources to places without the fiscal capacity to meet their own needs.

The legislative purposes of the CDBG program have remained unchanged to this day: the development of viable urban communities by providing: decent housing, a suitable living environment, and expanding economic opportunities principally for persons of low and moderate income. However, these purposes lack a clear set of benchmarks by which to judge the results of this spending and accompanying local efforts to strengthen low-income communities.

Currently, the law requires that 70 percent of CDBG funds benefit low and moderate-income persons. Grantees report that 95 percent of all CDBG

expenditures in FY 2004 were devoted to activities that provided at least one-half of their benefits to low- and moderate-income persons.

CDBG is employed by communities in many different ways. In its simplest form, CDBG funds are used to directly finance activities such as the construction of public facilities and improvements.

CDBG is also source of funding for subrecipients such as non-profit organizations, community-based organizations, and faith-based organizations. These entities utilize CDBG to deliver public services such as child day-care, senior citizen programs, adult literacy and education, and assistance for the homeless.

Finally, CDBG was used by local government to fund economic development activities at a level of \$434 million in FY 2004. These investments served to create or retain more than 78,000 jobs, of which 76 percent went to low- and moderate-income persons. We expect the successor to CDBG and other current programs will be even more effective in this regard.

In addition to CDBG, the Administration's proposal would consolidate and replace other, much smaller HUD programs including Brownfields development grants, grants to Round II Empowerment Zones, Rural and Economic Development grants, and the Section 108 guarantee program. The Section 108 program has been used by a relatively small fraction of CDBG

recipient communities to leverage their CDBG funds to pursue physical and economic revitalization projects that can renew entire neighborhoods or provide affordable housing to low- and moderate-income persons.

Administration of CDBG

In order for an eligible jurisdiction to receive its CDBG grant, it must comply with HUD's consolidated planning process that requires each jurisdiction to conduct a comprehensive assessment of its community development needs generally every five years and map out a coordinated strategy for addressing those needs.

CPD's field staff has the primary responsibility for working with our CDBG grantees. They not only serve as an expert resource for those grantees but they execute HUD's critical functions in managing the CDBG program. They perform risk analyses of grantees in order to establish priorities for monitoring and review of grantee activities. They carry out the hard work of monitoring grantee performance and compliance, and criticize grantee administration and recommend and enforce remedial actions and sanctions.

The CPD field staff also serves to educate and inform our grantees of critical issues in the CDBG program. Let me now address a few of those critical issues for the benefit of the Committee.

Timely expenditure of CDBG funds

Section 104(e)(1) of the HCDA requires HUD to review CDBG grantees to determine if they have carried out their CDBG assisted activities in a timely manner. As a result, a grantee may not have more than 1.5 times its current grant in its Line of Credit.

By 1999, the amount of CDBG funds remaining unexpended in grantees' lines of credit due to the lack of timely expenditures was a growing concern to HUD, as well as to Congress and the Government Accountability Office (GAO). In early 1999, there were over 300 untimely grantees, with a relatively small percentage of those that were untimely being responsible for the largest percent of funds that exceeded the 1.5 standard. Therefore, as Assistant Secretary of CPD at the time, I established a grant reduction policy for untimely CDBG grantees that was announced in the fall of 2001, with implementation starting in March 2002.

Implementation of the timeliness policy has succeeded in reducing in both the number of grantees that are currently untimely -- from over 300 to approximately 50 -- and the amount of CDBG funds above the 1.5 standard that is undisbursed in grantees' lines of credit -- from a high point of \$370 million, now down to roughly \$30 million.

Formula Study/Targeting of Funds

HUD has studied the CDBG formula in light of concerns about targeting to the neediest individuals and communities. To establish the formula basis for allocating each year's appropriation, the statute identifies poverty, neighborhood blight, deteriorated housing, physical and economic distress, decline, suitability of one's living environment, and isolation of income groups, among others, as important components of community development need. The statute prescribes both the components of the formula calculation and its application. Two alternative formula calculations are made initially, each using variables identified in the 1970s that proxy these dimensions of community development needs, including population, poverty, overcrowded housing, age of housing and growth lag. Each formula uses three of these variables (both use poverty) with each weighted separately. These core variables in the formula have not been changed since 1978. The calculations and the determination of which formula allocation is used for each grantee are quite complex.

The CDBG formula has undergone five major assessments since 1974. On February 21, 2005, HUD released a new assessment based on the introduction of 2000 Census data into the CDBG formula. In addition to estimating how well the formula allocates to community development need after introduction of the 2000 Census data, it provides four alternative formulas for targeting funding. This analysis of the CDBG formula will help to

inform decisions about how federal resources can be better targeted in the proposed initiative.

Targeting operates on the premise that a community with high need should get a larger per capita grant than a community with low need. As designed, the formula was targeted to need, but that targeting has weakened substantially since 1978. This result is not surprising or unexpected given that the same factors have been used, without change, for 28 years, while the demographics of the country have changed dramatically during that time.

Monitoring

A major part of HUD's administration of the CDBG program is monitoring grantees' use of funds. In addition to requiring HUD to determine that grantees are carrying out their CDBG assisted activities in a timely manner, the HCD Act requires HUD to review and audit CDBG grantees to determine whether they have:

- Carried out CDBG assisted activities and certifications in accordance with the requirements and primary objectives of the Act and other applicable laws; and
- Have a continuing capacity to carry out those activities in a timely manner.

In order to implement this requirement, HUD performs risk analyses to determine which grantees to review on-site and conducts an assessment of

each grantee at the end of the program year. Grantees are also required to have an annual audit pursuant to OMB Circular A-133.

The risk analysis process identifies high-risk CDBG grantees and ensures that HUD's resources are targeted to monitoring those grantees on site. In FY '04, HUD performed on-site monitoring for 380 of its 1162 CDBG grantees. As a result of this program monitoring effort, HUD staff identified 465 concerns and 610 findings. This led to 130 sanctions in which grantees were advised to reimburse their CDBG programs with non-federal funds due to their failure to carry out activities in accordance with the statute and regulations.

The regulations identify a range of corrective actions that may be used when a finding of non-compliance is made. Corrective actions recommended by HUD are to be "designed to prevent a continuation of the performance deficiency; mitigate, to the extent possible, the adverse effects or consequences of the deficiency; and prevent a recurrence of the deficiency. As specified in regulations, HUD monitors to consider each finding on a case-by-case basis and determine the most appropriate corrective action to recommend when a finding is made. Advising a grantee to reimburse its CDBG program with non-federal funds always gets a grantee's attention, but reimbursement is not the most appropriate remedy in every case. You will note that HUD does not monitor the extent to which CDBG has improved community conditions, increased opportunity, or otherwise

strengthened low income communities, nor is funding contingent on demonstrating progress and results. On the other hand, these will be central elements of the Administration's new approach.

Summary

I appreciate the opportunity provided by the Committee to describe our administration of the CDBG program and to highlight some of its strengths and weaknesses. CDBG has remained true to its roots over the past three decades with the principles of consolidation and local flexibility and responsibility being constant. In my previous role as mayor of Syracuse, New York, I experienced both the joys and frustrations that go along with the CDBG territory. I understand the esteem with which some view the CDBG program and have seen the good it has achieved within my own community and across America. At the same time, I can also recognize the frustrations of local officials trying to implement activities within the interlocking webs of local politics and federal requirements.

The circumstances that make a program right for a certain era do not continue indefinitely. We can learn from our experience and do things better. In the future, our support for these communities will be improved if we better target funds to communities in greater need of assistance, consolidate our programs, set clear goals for our efforts at the federal level, and hold ourselves and recipients accountable for progress and results consistent with those goals. Thank you.